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Directors' Report


The Bre-X event in Indonesia had a serious effect on the company's activities internationally. In response to this event, investors reacted by fleeing from the market place, driving the entire junior market stock prices to across the board lows. Coinciding with this unfortunate situation, the prices of certain metals, such as gold, copper and nickel dropped to new lows. Tanqueray made a major commitment to explore for gold and silver in Indonesia mainly because of the Busang discovery of Bre-X. Modest sized precious metal deposits are in production in Kalimantan and others of medium size will probably be found, however, the likelihood of finding the mammoth deposit represented by Bre-X appears unlikely.

While market unrest in gold exploration stock prices prevailed during 1997, exploration interest for other commodities such as diamonds, silver, platinum and uranium were kept at an attractive level. The Company's joint venture partner, Cypango Ventures Ltd. discovered one new diamond bearing kimberlite on the Yamba Lake prospect in the Northwest Territories. To date, six diamondiferous kimberlites have been discovered on the property and although small in area, it is possible with further study that collectively, they could become economic.

Tanqueray has continued its active search for new mineral opportunities and several new projects are under evaluation and exploration could commence in the second quarter of 1998.

We acknowledge the continued support and confidence of our shareholders. We expect 1998 will bring new and exciting projects and rewards to the company.

On behalf of the Board



E.A. Schiller,

I N D O N E S I A

K A L I M A N T A N

The company carried out extensive regional geochemical stream sediment surveys on the Purukcahu concession in north central Kalimantan. This work was undertaken to follow up on areas identified by the airborne survey completed in 1996. The Company was unable to obtain all the necessary permits to carry out sampling on the Kusan concession so the work program was deferred until such time as permits can be obtained. A number of gold anomalies were identified on the Purukcahu concession. The reports of the work completed have been lodged with our partners, Moonstone Diamond Corporation and PT Aneka Tambang and filed with The Indonesian Department of Mines. The 1998 program will be based on partner discussions.

W E S T J A V A

Regional stream sediment surveys were done and several anomalous antimony, gold and silver sites were identified. Reports have been lodged with The Indonesian Department of Mines. The data is currently being reviewed by our consultants with a view to deciding on the 1998 program.

C A N A D A

Y A M B A L A K E , N O R T H W E S T T E R R I T O R I E S

The Yamba Lake claim block is situated 320 kilometers northeast of Yellowknife and adjoins the BHP/Dia Met claim block to the north. Since 1991, BHP/Dia Met have discovered over 100 kimberlite pipes of which 90% are diamond bearing.

Since 1993, Tanqueray and Mill City International Inc. have completed detailed heavy mineral indicator studies which led to the discovery of five diamondiferous kimberlite pipes - Torrie, Sue, Spudnik, Eddie and Ptarmigan.

In 1996, Tanqueray and Mill City entered into a joint venture arrangement with Cypango Ventures Ltd. who in turn completed an extensive heavy mineral geochemical program. A number of indicator mineral trains were delineated that coincide with geophysical targets with kimberlite signature. Several targets were drilled but only one kimberlite (T-10) was discovered. Cypango completed caustic dissolution studies on a series of sample batches taken from the kimberlite. From this sample of 83.6 kgs, a total of six macro diamonds (greater than 0.5 mm in the longest dimension) and sixty-two micro diamonds (less than 0.5 mm in the longest dimension) were recovered. Further work was suspended on the T-10 kimberlite as it was deemed to be too small to justify additional studies. Tanqueray and Mill City have not been advised to date by Cypango as to the planned exploration program for 1998.

D A M O T I L A K E , N O R T H W E S T T E R R I T O R I E S

Tanqueray and Gitennes Explorations Inc., both 50% partners, entered into an option agreement with Placer Dome Canada Limited on the Firefly Prospect at Damoti Lake, Northwest Territories. In the fall of 1997 Placer Dome elected not to exercise their option on this property. The claims remain in good standing, however, future work will require higher gold prices.

H A R P L A K E , L A B R A D O R

In 1996, Tanqueray tested a geophysical anomaly over the Company's 100% owned Ross Lake Prospect in the Harp Lake area of Central Labrador, 300 kilometers northwest of Goose Bay. Two drill holes intersected massive to disseminated ilmenite-bearing magnetite with values in chromium and vanadium. Tanqueray is seeking a joint venture partner to further develop this prospect.

AUDITORS' REPORT

To the Shareholders of Tanqueray Resources Ltd.

We have audited the consolidated balance sheets of Tanqueray Resources Ltd. as at December 31, 1997 and 1996 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Hudson & Company, Hodges Scott

Calgary, Canada

February 27, 1998

Chartered Accountants

TANQUERAY RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31

	1997	1996
<u>ASSETS</u>		
Current		
Cash	\$ 883,068	\$ 358,351
Security deposit (note 1)	158,821	1,974,586
Marketable securities	38,500	246,957
Accounts receivable	11,717	9,099
Prepays and deposits	11,524	13,112
Due from Absolut Resources Corp. (note 5)	6,335	-
	1,109,965	2,602,105
Equipment (note 3)	7,208	9,125
Mining Exploration Properties (note 4)	1,813,391	1,265,953
	\$ 2,930,564	\$ 3,877,183
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 66,925	\$ 109,279
Due to Absolut Resources Corp. (note 5)	-	140,757
	66,925	250,036
Due to Minority Interest Shareholder	464	-
	67,389	250,036
<u>SHAREHOLDERS' EQUITY</u>		
Share Capital (note 6)	9,793,958	9,793,958
Deficit	(6,930,783)	(6,166,811)
	2,863,175	3,627,147
	\$ 2,930,564	\$ 3,877,183

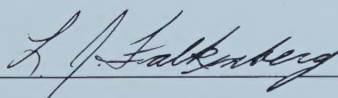
Commitments (note 7)

On behalf of The Board



Director

E.A. Schiller



Director

Linda J. Falkenberg

CONSOLIDATED STATEMENTS OF LOSS AND DEFICITYEAR ENDED DECEMBER 31

	1997	1996
<u>REVENUE</u>		
Rental and administration fees	\$ 60	\$ 6,525
Interest and other	95,002	29,203
	95,062	35,728
<u>EXPENSES</u>		
Office	47,117	29,151
Licenses and fees	39,606	38,311
Wages	38,522	52,334
Professional fees	35,806	7,632
Travel and promotion	34,789	25,394
Consulting fees	27,665	19,800
Rent	20,087	15,904
Insurance	18,049	17,653
Telephone	13,774	16,063
Bank charges and interest	2,119	4,424
Wire services	957	2,783
Depletion and amortization	2,446	3,108
	280,937	232,557
Loss before undernoted items	(185,875)	(196,829)
<u>OTHER</u>		
Loss on abandonment and write-down of deferred mining properties	(531,541)	(523,608)
Gain on sale of marketable securities	44,823	-
Loss on writedown of marketable securities to quoted market value	(91,379)	-
LOSS FOR THE YEAR	(763,972)	(720,437)
Deficit at beginning of year	(6,166,811)	(5,446,374)
DEFICIT AT END OF YEAR	\$ (6,930,783)	\$ (6,166,811)
LOSS PER SHARE	\$ (0.03)	\$ (0.03)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITIONYEAR ENDED DECEMBER 31

	1997	1996
<u>OPERATING</u>		
Loss for the year	\$ (763,972)	\$ (720,437)
Items not involving cash:		
Loss on abandonment and write-down of deferred mining properties	531,541	523,608
Loss on writedown of marketable securities to quoted market value	91,379	-
Gain on disposal of marketable securities	(44,823)	-
Depletion and amortization	2,446	3,108
	(183,429)	(193,721)
Change in non-cash operating working capital	(43,384)	85,518
	(226,813)	(108,203)
<u>FINANCING</u>		
Due to minority interest shareholder	464	-
Issuance of share capital, net of issuance costs	-	1,266,566
	464	1,266,566
<u>INVESTING</u>		
Decrease (Increase) in security deposits on mining properties	1,815,765	(1,974,586)
Purchase and exploration of mineral claims	(1,078,979)	(519,917)
Due from joint venture partners	-	379,606
Purchase of marketable securities	-	(246,957)
Proceeds on sale of marketable securities	161,901	-
Due from Absolut Resources Corp.	(147,092)	(15,662)
Additions to office furniture and equipment	(529)	-
	751,066	(2,377,516)
INCREASE (DECREASE) IN CASH	524,717	(1,219,153)
Cash at beginning of year	358,351	1,577,504
CASH AT END OF YEAR	\$ 883,068	\$ 358,351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997

General

The Company was incorporated under the laws of Alberta on November 22, 1983. The Company's current principal business activity is participation in various mining ventures.

The underlying value of its mineral properties and related deferred costs is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production or proceeds from the disposition of the properties.

Summary of significant accounting policies

Basis of Consolidation

These consolidated financial statements include the accounts of Tanqueray Resources Ltd. and its 75% interest in Double Diamond Corporation PTE Ltd.

Marketable Securities

Marketable securities with a cost of \$127,879 have been valued at the lower of cost and quoted market value of \$38,500.

Joint Venture Accounting

A substantial portion of the Company's exploration and production activities are conducted jointly with others, and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Deferred Mining Expenditures

The cost of mineral properties and related exploration and development costs are deferred. These costs will be amortized over the estimated useful life of the properties following the commencement of production or written-off if the properties are allowed to lapse or are abandoned.

Costs include the cash consideration and the fair market value of shares issued for the acquisition of mineral properties.

Office Furniture and Equipment

Amortization of office furniture and equipment is provided for on a diminishing-balance basis at an annual rate of 20% to 30%.

Future Site Restoration Costs

Current expenditures relating to ongoing environmental regulatory requirements and reclamation programs are charged against operations as incurred. Estimated future reclamation costs, including site restoration will be charged against earnings using the unit of production method over the estimated life of any future producing mines.

Share Capital

Share capital issued for non-monetary consideration is recorded at the fair market value of the shares on the date the agreement to issue the shares was entered into as determined by the Board of Directors of the Company based on the trading price of the shares on the Alberta Stock Exchange.

Flow Through Shares

Funds received from the issuance of flow through shares are to be spent on qualifying exploration expenditures. The subscribers are entitled to receive income tax deductions for the funds advanced. Deferred mining expenditures and share capital are reduced to give recognition to the income tax deductions renounced to the flow through share subscribers.

Foreign Exchange

Foreign currency denominated assets and liabilities are translated at the exchange rate prevailing at the balance sheet date for monetary items and at the transaction date for non-monetary items. Revenues and expenses except depletion and amortization, are converted at average exchange rates for the period. Depletion and amortization are converted at the same rate as the related assets. Gains or losses on translation are expensed except for those relating to long-term monetary items which are deferred and amortized over the remaining terms of the related items.

Loss Per Share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Fully diluted loss per share has not been disclosed as they are anti-dilutive.

1. Security Deposit

The security deposit of \$158,821 are funds held by the Indonesian Director General of Mining to guarantee the Company's commitment to perform exploration work on certain land claims in Indonesia.

2. Acquisition of subsidiary

During the year the Company acquired a 75% interest in Double Diamond Corporation PTE Ltd. (Double Diamond) for a nominal amount. Double Diamond was incorporated under the laws of Singapore on June 11, 1996 and commenced business operations during 1997.

These consolidated financial statements only include the accounts of Double Diamond to June 30, 1997 (Double Diamond's fiscal year end) as no material activity has occurred since that date and no subsequent financial statements have been prepared.

3. Equipment

	1997		1996	
	Cost	Accumulated Amortization	Net	Net
Office furniture and equipment	\$ 17,674	\$ 10,466	\$ 7,208	\$ 9,125

4. Mining Exploration Properties

	1997	1996
Acquisition costs	\$ 65,999	\$ 182,049
Exploration costs	1,747,392	1,083,904
	\$ 1,813,391	\$ 1,265,953
Indonesia	\$ 1,263,367	\$ 240,147
Damoti Lake	326,165	326,165
Harp Lake	223,859	699,641
	\$ 1,813,391	\$ 1,265,953

Damoti Lake, Northwest Territories

The Company holds a 50% interest in the Damoti Lake property.

Indonesia

The Company holds a 60% interest in 261,979 hectares of mineral leases.

Harp Lake, Labrador

The Company holds a 100% interest in the Ross Lake Prospect.

5. Related Party Transactions

The amount due to/from Absolut Resources Corp. consists of various expenses paid by Absolut Resources Corp. on behalf of the Company or by the Company on behalf of Absolut Resources Corp. and miscellaneous inter-company transactions.

6. Share Capital

Authorized

Unlimited number of common shares without nominal or par value

	1997		1996	
	Number of Shares	Consideration	Number of Shares	Consideration
Issued				
Balance at beginning of year	22,776,111	\$ 9,793,958	20,536,111	\$ 8,527,392
Issued pursuant to a prospectus dated November 27, 1996 net of issuance costs of \$118,434	-	-	1,240,000	811,566
Stock options exercised	-	-	1,000,000	455,000
	22,776,111	\$ 9,793,958	22,776,111	\$ 9,793,958

The Company has reserved shares for issuance under stock option plans which allow officers, directors and employees to purchase up to 1,225,000 common shares. Of these common shares 350,000 were exercisable at \$0.50 per share until December 22, 1999, and 875,000 are exercisable at \$0.66 per share until February 20, 2001. No options were exercised during the 1997 fiscal year. Subsequent to year end, the Alberta Stock Exchange approved a request to change the exercise price of the 875,000 options to \$0.13.

6. Share Capital (continued)

On November 27, 1996 the Company issued 1,240,000 special warrants at \$0.75 each. Each special warrant entitled the holder to acquire one common share of the Company and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.00 per share if exercised prior to November 27, 1997 and at a price of \$1.25 per share if exercised within twelve months thereafter.

No warrants were exercised during the 1997 fiscal year. Subsequent to the year end the Alberta Stock Exchange approved a request to change the exercise price to \$0.30 if exercised prior to August 8, 1998.

7. Commitments

The company is committed under operating leases for premises and equipment to pay total minimum lease payments of approximately \$157,536 over the next five years.

8. Income Taxes

The Company has the following loss carry forwards which may be carried forward and applied to reduce future taxable income:

Expiry Date	Amount
1998	\$ 142,100
1999	154,800
2000	103,300
2001	159,500
2002	282,000
2003	216,000
2004	108,500
	<hr/>
	\$ 1,166,200

In addition, the Company has the following balances available to be applied to reduce future taxable income:

Canadian exploration expense	\$ 2,116,000
Canadian development expense	172,200
Foreign exploration and development expense	1,320,000
Undepreciated capital cost	32,900
Eligible capital expenditures	26,200
	<hr/>
	\$ 3,667,300

The Company has not recorded any possible future tax savings which could result from the application of the above balances.

9. Financial Instruments

The financial instruments of the Company are stated at cost which represents their fair market value with the exception of marketable securities which are recorded at their quoted market value which is less than cost.

10. Segmented Information

In 1996, the Company commenced exploration activities in Indonesia. The accounting policies followed by the Canadian segment are also followed by the Indonesian segment.

<u>1997</u>	Canada	Indonesia	Total
Corporate revenue	-	-	\$ 95,062
Corporate expenses	-	-	(280,937)
Loss on abandonment and write down of deferred mining properties	\$ (531,541)	\$ -	(531,541)
Other			(46,556)
Loss from operations	-	-	\$ (763,972)
Identifiable assets	\$ 550,024	\$ 1,263,367	\$ 1,813,391
Corporate assets	-	-	1,117,173
Total assets	-	-	\$ 2,930,564
<u>1996</u>	Canada	Indonesia	Total
Corporate revenue	-	-	\$ 35,728
Corporate expenses	-	-	(232,557)
Loss on abandonment and write down of deferred mining properties	\$ (523,608)	\$ -	(523,608)
Loss from operations	-	-	\$ (720,437)
Identifiable assets	\$ 1,025,806	\$ 240,147	\$ 1,265,953
Corporate assets	-	-	2,611,230
Total assets	-	-	\$ 3,877,183

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Bankers

Bank of Montreal
Calgary, Alberta

Auditors

Hudson & Company, Hodges Scott
Calgary, Alberta

Solicitors

Bennett Jones Verchere
Calgary, Alberta

***Registrar and
Transfer Agent***

Montreal Trust Company of Canada
Calgary, Alberta

Stock Exchange

Alberta Stock Exchange (TQY)

United States
Standard & Poors Listed

Directors and Officers

Charles MacDonald – President
Edward A. Schiller
Linda Falkenberg
Ralph Ansley

Share Capital

Shares Authorized	Unlimited
Shares issued as at 12/31/97	22,776,111

***Notice of Annual General
Meeting***

The Annual General Meeting of the Shareholders of Tanqueray Resources Ltd. will be held on Thursday, April 30, 1998 at 4:00 p.m. in The Boardroom of The 400 Club, 710 - 4th Avenue S.W., Calgary, Alberta.



